



1000 River Street  
Essex Junction, VT 05452  
Mail Stop 966B

December 7, 2006

Ms. Deena Frankel  
Executive Director  
Vermont Public Service Board  
112 State Street  
Montpelier, VT 05620

Dear Ms. Frankel:

Please accept the following comments from IBM on the proposed electric affordability program options and the related discussions in the November 30 workshop.

#### Overview

IBM supports the proposal of the Greater Burlington Industrial Corporation and the Lake Champlain Regional Chamber of Commerce. Key reasons for this support include:

- Social programs should be financed through the General Fund and subject to the normal legislative budgeting process.
- The GBIC/LCRCC proposal has a strong conservation component directed toward long-term sustainability and energy efficiency. Rather than simply “throwing money” at the same affordability problem year after year, this proposal would direct existing Energy Efficiency Utility services and resources to address the needs of low-income clients, to reduce future demands for both energy and subsidies.
- The tiered program would provide additional assistance to the lowest income households in the form of an initial block of low-cost power. The simplicity of this approach would minimize administration costs, while providing an ongoing incentive for conservation, not consumption.

#### Program Funding

IBM firmly believes that any electric affordability or subsidy program should be evaluated on its merits by the Legislature through the budget process, and financed through the General Fund, in the context of other current and proposed social programs. The main thrust of any of the proposed electric affordability programs is poverty alleviation, and responsibility for poverty alleviation is not logically related to one's electricity usage. Poverty is a broad and complex societal problem with many contributing causes, and programs designed to deal with poverty-related issues should have broad-based General Fund financing. Act 208 establishes the goal of funding the proposed program “in an equitable and reasonable manner.” A surcharge based on electricity usage (or revenue as a surrogate) would result in vastly different levels of

taxation among customers, based on an arbitrary factor that is unrelated to poverty, and as such would be inherently inequitable and unreasonable.

#### Full Disclosure of Charges to Customers

Contrary to IBM's view outlined above, some program proposals, such as AARP's, would be ratepayer funded. Transparency, accountability, and open government are vitally important, particularly when funding levels and program priorities are not subject to annual budget review by the Legislature. IBM finds the objection, by some supporters of ratepayer funding, to full disclosure of the proposed electric affordability surcharge on the customer's electric bill very troubling. Statements to the effect that ideally the surcharge should not appear on the bill at all, or that at least it should be combined with other charges (i.e., the energy efficiency charge) to avoid attracting attention, are inconsistent with principles of good government. An electric affordability program must be able to stand on its own merits, and withstand public scrutiny. Obscuring the true cost of the program as a means of avoiding healthy debate on public policy priorities and impacts is inappropriate.

#### Subsidies Between Customer Classes

IBM would like to clarify a related matter brought up at the November 30 workshop. Some participants may have inferred from the discussion comments that industrial or economic development rates are subsidized by residential customers, and set a precedent for undisclosed cross-subsidies between customer classes. This is not accurate. IBM's electric rates are cost based and do not contain, and have never contained, a subsidy supported by other rate payers. IBM's average rate is less than the average rate paid by residential customers because it is less expensive to provide power to IBM than to residences. IBM takes power in bulk at 115KV transmission voltage, and owns and maintains its own switchyard and distribution infrastructure. Accordingly, the costs associated with Green Mountain Power's distribution infrastructure, as well as the higher administrative costs associated with residential account management, are not allocated to IBM. This is all part of the differing costs associated with serving customers in different classes, and illustrates why the Board has historically tried to avoid cross-subsidies between classes. IBM supports this approach and believes that costs and benefits should be balanced within each customer class, not transferred from one class to another, consistent with comments submitted by the Department of Public Service. Assessment of a usage or revenue based surcharge across all customer classes would clearly violate this principle and create new cross-subsidies and cost distortions.

In past years, IBM, like some other business customers, has had special contracts with GMP. IBM's special contract provided for a small discount on incremental electric usage associated with growth in our facilities that resulted in capital investment and growth in employment. These special contracts received the full review and approval of the PSB to ensure that IBM met all the requirements for a special contract, and that the discounted power cost covered all of GMP's costs to serve the incremental load, and included a margin that was applied to GMP's fixed costs. The PSB has explicitly stated (Docket

6867, Section V. Findings 30 and 31) that the special contract “does not require other customer classes to subsidize IBM’s electricity costs.” Due to market pricing, IBM has not received any discount through its special contract since the end of 2004.

Incentives for Conservation and Energy Efficiency

IBM agrees with VPIRG, the Department of Public Service, and others that any affordability program must include strong incentives for conservation and energy efficiency. The State has a legitimate interest in increasing energy efficiency and reducing demand in exchange for financial assistance with electricity bills, and should require participants to implement no-cost or low-cost demand-side management measures as a condition of program enrollment. Like VPIRG, IBM would encourage the Board to utilize existing efficiency utility funds to meet the conservation objectives of the affordability program. As recommended in the APPRISE memo, following the Ohio model of prioritizing delivery of efficiency services to low income clients with high electricity usage can achieve high levels of energy usage reduction. The financial assistance portion of the program must also be designed to encourage conservation. Offering enrollees a base block of low cost power that corresponds to prudent household energy use would accomplish this goal while minimizing program complexity and administrative cost.

IBM appreciates the opportunity to participate in the collaborative process and to offer these comments. Thank you for your consideration.

Sincerely,

A handwritten signature in cursive script that reads "Janet Doyle".

Janet Doyle  
Manager, Environmental Programs and Wastewater Treatment